

**HAYWARD PUBLIC
FINANCING AUTHORITY**

COMPONENT UNIT FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2013**

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**HAYWARD PUBLIC FINANCING AUTHORITY
COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Hayward, California

Report on Financial Statements

We have audited the accompanying component unit financial statements of the Hayward Public Financing Authority (Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's component unit basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

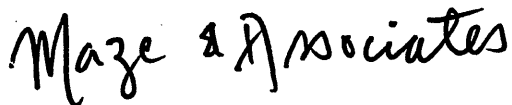
Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended June 30, 2013 that affected the format and nomenclature of the financial statements:

Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. See Notes 1I to the financial statements for relevant disclosures.

The emphasis of this matter does not constitute a modification to our opinions.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



Pleasant Hill, California
February 18, 2014

HAYWARD PUBLIC FINANCING AUTHORITY
(A Component of the City of Hayward, California)

COMBINING STATEMENT OF NET POSITION, JUNE 30, 2013

	<u>Certificates of Participation</u>				
	<u>2001 Water System Improvements</u>	<u>2004 Water System Improvements</u>	<u>2007 Refunding</u>	<u>1996 Water Refunding Lease Revenue Bonds</u>	<u>TOTALS</u>
ASSETS					
Restricted cash and cash equivalents (Note 2)	\$190,500		\$2	\$462,066	\$652,568
Restricted investments (Note 2)		\$623,828			623,828
Interest receivable	21,255	56,399	412,573	2,383	492,610
Investment in lease	<u>105,000</u>	<u>375,000</u>	<u>1,630,000</u>	<u>550,000</u>	<u>2,660,000</u>
CURRENT ASSETS	<u>316,755</u>	<u>1,055,227</u>	<u>2,042,575</u>	<u>1,014,449</u>	<u>4,429,006</u>
Deferred charges, net of accumulated amortization	39,380	99,519	476,637	28,754	644,290
Investments in leases to City of Hayward	<u>1,800,000</u>	<u>5,395,000</u>	<u>22,895,000</u>		<u>30,090,000</u>
NON CURRENT ASSETS	<u>1,839,380</u>	<u>5,494,519</u>	<u>23,371,637</u>	<u>28,754</u>	<u>30,734,290</u>
TOTAL ASSETS	<u>2,156,135</u>	<u>6,549,746</u>	<u>25,414,212</u>	<u>1,043,203</u>	<u>35,163,296</u>
LIABILITIES					
Interest payable	21,255	56,399	412,573	2,383	492,610
Long-term debt - current portion (Note 3)	<u>105,000</u>	<u>375,000</u>	<u>1,630,000</u>	<u>550,000</u>	<u>2,660,000</u>
CURRENT LIABILITIES	<u>126,255</u>	<u>431,399</u>	<u>2,042,573</u>	<u>552,383</u>	<u>3,152,610</u>
Long-term debt - non current portion (Note 3)	<u>1,800,000</u>	<u>5,395,000</u>	<u>22,895,000</u>		<u>30,090,000</u>
TOTAL LIABILITIES	<u>1,926,255</u>	<u>5,826,399</u>	<u>24,937,573</u>	<u>552,383</u>	<u>33,242,610</u>
NET POSITION - Restricted for debt service	<u>\$229,880</u>	<u>\$723,347</u>	<u>\$476,639</u>	<u>\$490,820</u>	<u>\$1,920,686</u>

See accompanying notes to financial statements

HAYWARD PUBLIC FINANCING AUTHORITY
(A Component of the City of Hayward, California)

COMBINING STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2013

	Certificates of Participation				
	2001 Water System Improvements	2004 Water System Improvements	2007 Refunding	1996 Water Refunding Lease Revenue Bonds	TOTALS
REVENUES:					
Interest on investments in leases	\$76,067	\$167,757	\$1,027,509	(\$2,189)	\$1,269,144
Investment income on cash and investments		28,717			28,717
Total revenues	76,067	196,474	1,027,509	(2,189)	1,297,861
EXPENSES:					
Interest on long-term debt and trustee fees	88,093	234,613	1,027,509	52,676	1,402,891
Amortization of deferred charges	2,970	8,853	31,776	43,140	86,739
Total expenses	91,063	243,466	1,059,285	95,816	1,489,630
CHANGE IN NET POSITION	(14,996)	(46,992)	(31,776)	(98,005)	(191,769)
NET POSITION					
Beginning of year	244,876	770,339	508,415	588,825	2,112,455
End of year	\$229,880	\$723,347	\$476,639	\$490,820	\$1,920,686

See accompanying notes to financial statements

HAYWARD PUBLIC FINANCING AUTHORITY
(A Component of the City of Hayward, California)

COMBINING STATEMENT OF CASH FLOWS, YEAR ENDED JUNE 30, 2013

	Certificates of Participation				
	2001 Water System Improvements	2004 Water System Improvements	2007 Refunding	1996 Water Refunding Lease Revenue Bonds	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES					
Lease receipts from City	\$177,092	\$535,763	\$2,624,176	\$515,000	\$3,852,031
Interest paid on long-term debt	(89,118)	(237,619)	(1,054,176)	(54,865)	(1,435,778)
Cash flows from operating activities	87,974	298,144	1,570,000	460,135	2,416,253
CASH FLOWS FROM INVESTING AND RELATED ACTIVITIES					
Interest from cash and investments		28,717			28,717
Cash flows from capital and related financing activities		28,717			28,717
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY					
Repayment of long-term debt principal	(100,000)	(365,000)	(1,570,000)	(515,000)	(2,550,000)
Cash flows (used for) capital and related financing activities	(100,000)	(365,000)	(1,570,000)	(515,000)	(2,550,000)
NET CASH FLOWS	(12,026)	(38,139)		(54,865)	(105,030)
CASH AND CASH EQUIVALENTS, Beginning of year	202,526	38,139	2	516,931	757,598
CASH AND CASH EQUIVALENTS, End of year	\$190,500		\$2	\$462,066	\$652,568
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss)	(\$14,996)	(\$46,992)	(\$31,776)	(\$98,005)	(\$191,769)
Adjustments to reconcile net loss to cash provided by operating activities:					
Items not affecting cash-					
Interest income		(28,717)			(28,717)
Amortization of deferred charges	2,970	8,853	31,776	43,140	86,739
Changes in:					
Interest receivable	1,025	3,006	26,667	2,189	32,887
Investments in leases to City of Hayward	100,000	365,000	1,570,000	515,000	2,550,000
Interest payable	(1,025)	(3,006)	(26,667)	(2,189)	(32,887)
Cash provided by operating activities	\$87,974	\$298,144	\$1,570,000	\$460,135	\$2,416,253

See accompanying notes to financial statements

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HAYWARD PUBLIC FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. **General Description** - The Hayward Public Financing Authority (Authority) is a joint powers agreement which was formed in May 1989 by a joint exercise of powers between the City of Hayward (City) and the Redevelopment Agency of the City of Hayward (RDA). The Authority provides financing of public capital improvements for the City and RDA through the issuance of Certificates of Participation (COPs) and Lease Revenue Bonds (Bonds). These forms of debt allow investors to participate in a stream of future lease payments.

Improvements financed with Authority debt are leased to the City with rental payments which, together with restricted assets of the Authority (see Note 2) will be sufficient to meet the debt service obligations of the debt. At the termination of the lease, title to the improvements will pass to the City.

The Authority is an integral part of the City. It primarily services the City and its governing body is the City Council. Therefore, the financial data of the Authority has also been included as a blended component unit within the City's Comprehensive Annual Financial Report.

- B. **Basis of Presentation** - The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

Authority-wide Statements: The Statement of Net Position and the Statement of Activities display information about the Authority. Eliminations have been made to minimize the double counting of internal activities. The Authority has business-type activities which are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Authority. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

- C. **Major Funds** - GASB Statement 34 defines major funds and requires that the Authority's major business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/ expenses equal to ten percent of their fund-type total and five percent of the grand total.

- D. **Basis of Accounting** - Revenues and expenses are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

HAYWARD PUBLIC FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- E. Cash Equivalents** - The Authority considers all highly liquid restricted investments with a maturity of three months or less when purchased to be cash equivalents. Mutual funds and guaranteed investment contracts are readily convertible to cash and are therefore considered to be cash equivalents.
- F. Deferred Charges** - Unamortized issuance costs are being amortized on a straight-line basis over the remaining lives of debt issues. Accumulated amortization at June 30, 2013 and 2012 was \$1,061,848 and \$975,109, respectively.
- G. Construction in Progress Net Financing Costs** - Interest incurred and the amortization of issuance costs on debt used to finance projects are netted with interest earned on unspent proceeds of the debt. These "Net Financing Costs" are capitalized and added to construction in progress during the construction period to reflect the true project costs, including financing costs.
- H. Investments in Leases** - Improvements financed by the Authority are leased to its members for their entire estimated useful life and will become the members' property at the conclusion of the lease. The Authority therefore records the present value of the lease receivable and considers the leased improvements to have been sold for this amount when leased.
- I. Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 2 - CASH AND INVESTMENTS

A. Policies

A Trustee under the Authority's debt issues holds and invests most of the Authority's cash in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

HAYWARD PUBLIC FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

NOTE 2 - CASH AND INVESTMENTS

Cash and investments are classified in the financial statements as shown below:

Restricted cash and cash equivalents	\$652,568
Restricted investments	623,828
	<u>\$1,276,396</u>

B. *Investments Authorized by Debt Agreements*

In accordance with the Indenture of Trust, a Trustee holds the portion of Bond proceeds established as reserves for debt service on these Bonds. The California Government Code requires these funds to be invested in accordance with bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by trustee and certain provisions of these debt agreements. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type.

Investments are purchased and held in the name of the Trustee on behalf of the Authority and are held to maturity to match with payments required under the debt agreements.

C. *Interest Rate Risk and Credit Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	12 Months or less
Guaranteed Investment Contract	\$623,828
Money Market Mutual Fund	652,568
Total Investments	<u>\$1,276,396</u>

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization which is set forth below:

Investment Type	AAAm	Not Rated	Total
Guaranteed Investment Contract		\$623,828	\$623,828
Money Market Mutual Fund	\$652,568		652,568
Total Investments	<u>\$652,568</u>	<u>\$623,828</u>	<u>\$1,276,396</u>

HAYWARD PUBLIC FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Custodial Credit Risk

Significant investments in the securities of any individual issuers, other than U.S. Treasury securities and money market mutual funds, are set forth below:

Major Fund	Issuer	Investment Type	Reported Amount
2004 Water System Improvement Fund	FSA Capital Management Services LLC	Guaranteed Investment Contract	\$623,828

NOTE 3 – LONG TERM OBLIGATIONS

Changes in long-term obligations consist of the following:

Type of Obligation	Authorized and Issued	Principal Outstanding June 30, 2012	Retirements	Principal Outstanding June 30, 2013	Current Portion
2001 Water System Improvement Project, 3.0-4.75%, due 10/1/26	\$5,030,000	\$2,005,000	\$100,000	\$1,905,000	\$105,000
2004 Water System Improvement Project, 2.0-4.375%, due 10/1/24	6,845,000	6,135,000	365,000	5,770,000	375,000
2007 Refunding COP 3.0-5.2%, due 8/1/26	31,820,000	26,095,000	1,570,000	24,525,000	1,630,000
1996 Lease Revenue Bonds 3.0-5.2%, due 6/1/14	6,440,000	1,065,000	515,000	550,000	550,000
Total		<u>\$35,300,000</u>	<u>\$2,550,000</u>	<u>\$32,750,000</u>	<u>\$2,660,000</u>

A. 2001 Water System Improvement Project Certificates of Participation

On October 24, 2001 the Authority issued \$5,030,000 in Certificates of Participation (2001 COPs) to finance construction of the Hesperian Booster Pump Station. These improvements have been pledged as collateral under a lease agreement with the City which provides lease payments to be used to pay debt service on the 2001 COPs. Upon retirement of the 2001 COPs and related interest, the lease agreement terminates and title to the improvements and projects reverts to the City.

Construction was completed during fiscal year 2005. Under an installment agreement, the City leases these facilities from the Authority. At the conclusion of the lease, the facilities become the property of the City.

The 2001 COPs bear interest at 3.0% to 4.75% and are due semi-annually on April 1 and October 1, commencing April 1, 2002. Principal payments are due annually on October 1.

2001 COPs maturing on or after October 1, 2012 may be prepaid, on any payment date beginning October 1, 2011 at par.

HAYWARD PUBLIC FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

NOTE 3 – LONG TERM OBLIGATIONS (Continued)

B. *2004 Water System Improvement Project Certificates of Participation*

In January 2004, the Authority issued \$6,845,000 in Certificates of Participation (2004 COPs) to the design and construction of a new booster pump station. The 2004 COPs are payable from net revenue from operations of the City's water system. The 2004 COPs bear interest serially of 2.0% to 4.375% and are due serially on October 1. Interest payments are due semi-annually on April 1 and October 1.

Construction was completed during fiscal year 2006. Under an installment agreement, the City leases these facilities from the Authority. At the conclusion of the lease, the facilities become the property of the City.

C. *2007 Refunding Certificates of Participation*

In August 2008, the Authority issued \$31,820,000 in Certificates of Participation (2007 COPs) to prepay \$26,740,000 of the outstanding principal of the 1996 Civic Center Certificates of Participation and to prepay \$4,245,000 of the outstanding principal of the 1997 Road and Seismic Retrofit Refunding Certificates of Participation. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position.

Improvements, initially financed with 1996 COPs include construction of a new City Hall and related improvements, parking facilities and other City project which have been completed. The 1997 Refunding COPs refunded the 1991 COPs which financed improvements including road improvements and certain City buildings seismic retrofit projects which have been completed. The improvements are leased to the City under an agreement which provides the funds to service the 2007 Refunding Certificates of Participation debt service requirements.

The 2007 Refunding COPs bear interest at 3.0% to 5.2% and are due serially each August 1. Interest payments are due semi-annually on February 1 and August 1.

D. *1996 Lease Revenue Bonds*

In February 1996, the Authority issued \$6,440,000 in Lease Revenue Refunding Bonds, Series 1996 (1996 Bonds) to advance refund \$5,915,000 of outstanding 1989 Lease Revenue Bonds. The 1989 defeased bonds have since been paid in full. The Authority elected to amortize the difference between the amount deposited in the trust and net book value of the Refunded Bonds, which amounted to \$480,411, over the life of the 1989 bonds.

Improvements, initially financed with 1989 lease revenue bonds, and which have been completed include a Reservoir Telemetry Control System, installation of two emergency electrical generators used to pump water in the event of electrical failure, fuel tanks, and replacement of 16,600 feet of water mains. These improvements are leased to the City under an agreement which provides the funds to service the Lease Revenue Refunding Bonds debt service requirements. Upon full payment of the outstanding 1996 Bonds, the improvements become the property of the City.

HAYWARD PUBLIC FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

NOTE 3 – LONG TERM OBLIGATIONS (Continued)

The 1996 Bonds bear interest at 3.0% to 5.2% and are due serially each June 1. Interest payments are due semi-annually on December 1 and June 1.

1996 Bonds maturing on or after June 1, 2005 may be prepaid on any date beginning June 1, 2004 at par plus 2%. The prepayment price decreases one-half of one percent each year until June 1, 2006, at which time the 1996 Bonds may be prepaid at par.

E. Debt Service Requirements

Annual debt service requirements are shown below for the above debt issues:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$2,660,000	\$1,329,388
2015	2,200,000	1,216,917
2016	2,290,000	1,128,414
2017	2,375,000	1,035,804
2018	2,480,000	938,721
2019 - 2023	11,190,000	3,330,758
2024 - 2027	9,555,000	819,845
Totals	<u>\$32,750,000</u>	<u>\$9,799,847</u>